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SPECIAL NOTICE

RATE CHANGE AND NEW LICENSING AND REPORTING REQUIREMENTS FOR BIODIESEL AND ETHANOL BLENDED AND PRODUCTION FACILITIES

Michigan Motor Fuel Tax Licensing

Public Act 268 of 2006 amends the Motor Fuel Tax Act, Public Act 403 of 2000, as amended, and takes effect on September 1, 2006.

RATE CHANGE

This amendment reduces the tax rate to 12 cents per gallon for gasoline containing at least 70% ethanol and diesel fuel containing at least 5% biodiesel. 100% Ethanol (E00) does not qualify for the reduced rate. The Blenders Return will account for any overpayment of tax for fuel blended below the terminal rack. The Motor Fuel Tax Act defines "Rack" as: "a mechanism for delivering motor fuel from a refinery, a terminal, or a marine vessel into a railroad tank car, a transport truck, a tank wagon, the fuel supply tank of a marine vessel, or other means of transfer outside of the bulk transfer/terminal system."

To qualify for the reduced tax rate, the correct product codes for the blended fuel **MUST** be used when reporting on the appropriate return. An updated product code list is attached. Bills of Lading and invoices may continue to bear only the Supplier's proprietary codes.

The codes from the attached list are for fuel tax reporting only. Blenders must issue a new Bill of Lading that properly identifies the blended product. Invoices may be used and reported as Bills of Lading if they meet the qualifications for a Bill of Lading as outlined under MCL 207.1101 (legislature.mi.gov/doc.aspx?mcl-207-1101).

Examples of Fuel Tax Reporting – Ethanol Blends:

- (1) 1,000 gallons of E85 is removed from the terminal. Gasohol with product code E85 for 1,000 gallons must be reported to qualify for the reduced rate; it cannot be reported as 850 gallons of product code E00 (Ethanol) and 150 gallons of 065 (gasoline).
- (2) Splash Blending – 150 gallons of 065 (gasoline) are removed from a terminal and 850 gallons of E00 (Ethanol) are added to the same tank. A new Bill of Lading must be issued by the blender to show the resulting blended product and the product must be reported on the return as E85.

Examples of Fuel Tax Reporting – Biodiesel Blends:

- (1) 1,000 gallons of B20 is removed from the terminal. Biodiesel Blend with Product code B20 for 1,000 gallons must be reported to qualify for the reduced rate; it cannot be reported as 200 gallons of product code B00 (biodiesel) and 800 gallons of 160 (diesel).
- (2) Splash Blending – 800 gallons of 160 (diesel) are removed from a terminal and 200 gallons of B00 (biodiesel) are added to the same tank, blended after removal from the rack. A new Bill of Lading must be issued by the blender to show the resulting blended product and the product must be reported on the return as B20 to qualify for the reduced rate.
- (3) 1,000 gallons of B20 is blended below the rack. Tax paid at the terminal rack or upon importation at the rate of 15 cents per gallon on 800 gallons of diesel and 12 cents per gallon on 200 gallons of biodiesel. The correct tax rate for the blended product is 12 cents per gallon so the Blenders return will allow for a refund of 3 cents per gallon on tax paid on the diesel fuel.
- (4) 10,000 gallons of B2 is blended below the rack. Tax of 15 cents per gallon is paid on 9,800 gallons of diesel and 12 cents per gallon is paid on 200 gallons of biodiesel. Since the correct tax rate for the blended product is 15 cents per gallon, the Blenders return will reflect a tax due of 3 cents per gallon on the 200 gallons of biodiesel.

NEW LICENSING REQUIREMENTS

- **Blenders:** Blenders of gasoline with ethanol or diesel fuel with biodiesel below the terminal rack are required to obtain a Blenders License. Suppliers and Permissive Suppliers who engage in this activity are also required to obtain a Blenders License.
- **Fuel Producing Facilities:** Facilities that produce motor fuel and disburse the fuel from a rack shall obtain a Terminal Operator License and are subject to the reporting requirements for Terminal Operators. Position Holders (owners of the fuel) in the facilities shall obtain a Suppliers License and are subject to the reporting requirements for Suppliers. In addition to submitting the application and fees, copies of the following documents are required: position holder agreement, IRS 637 letter, and financial statements. These documents will be reviewed to determine whether a bond is necessary.

Terminal Operators, Suppliers and Blenders are required to file returns electronically. For more information on electronic filing, visit our Web site at www.michigan.gov/motorfuelefile.

Public Act 403 provides penalties for violating licensing requirements. The application must be completed in its entirety to enable the department to determine the appropriate license type and fees. The completed application and required documentation must be submitted to the Michigan Department of Treasury no later than **August 25, 2006** to ensure that you are properly licensed on September 1, 2006.

The application (Form 3712) to apply for the new license types can be obtained by visiting our Web site at www.michigan.gov/treasury or by calling our office at (517) 636-4600.

Notifications regarding changes to returns will be sent under separate mailing. A separate notice and form will be sent providing information to claim a refund for fuel in bulk storage at the close of business on August 31, 2006.

Contact the Michigan Department of Treasury at (517) 636-4600 if you have any questions.

Michigan Fuel Product Codes

Gasoline

Natural Gasoline	061
Gasoline	065
Gasoline MTBE	071
Transmix	100
Blending Components	122
Napthas	126
Toluene	199
Raffinates	223
Liquid Natural Gas	225

Ethanol and Ethanol Blends

Product Codes for Ethanol and Ethanol blends will now be reported according to the blend percentage. The prefix will be “E” plus the percentage. Example: A blend of 10% Ethanol and 90% Gasoline will be reported as E10. Ethanol (100%) will be reported as E00. E69 will be taxed as gasoline and E70 to E99 will be taxed at the 12 cents tax rate.

Undyed Diesel

Kerosene - undyed	142
Low Sulfur Kerosene - undyed	145
High Sulfur Kerosene - undyed	147
No. 1 Fuel Oil - undyed	150
Heating Oil	152
Diesel Fuel #4 - undyed	154
Diesel Fuel - undyed	160
Low Sulfur diesel # 1 - undyed	161
Low Sulfur diesel # 2 - undyed	167
Mineral Oils	281
# 1 High Sulfur Diesel - undyed	282
# 2 High Sulfur Diesel - undyed	283

Undyed BioDiesel and BioDiesel Blends

Product Codes for biodiesel and biodiesel blends will now be reported according to the blend percentage. The prefix will be “B” plus the percentage. Example: A blend of 20% biodiesel and 80% Diesel will be reported as B20. Biodiesel (B100) will be reported as B00. B04 will be taxed as diesel fuel and B05 to B00 will be taxed at the 12 cents tax rate.

Dyed Diesel

Kerosene - dye added	072
Low Sulfur Kerosene - dye added	073
High Sulfur Kerosene - dye added	074
Diesel Fuel #4 - dye added	153
High Sulfur Diesel - dye added	226
Low Sulfur Diesel - dye added	227
Diesel Fuel - dye added	228
No 1 Diesel - dye added	231

Dyed Biodiesel and Dyed Biodiesel Blends

Product Codes for dyed biodiesel and dyed biodiesel blends will now be reported according to the blend percentage. The prefix will be “D” plus the percentage. Example: A blend of 20% dyed biodiesel and 80% dyed diesel will be reported as D20. Dyed biodiesel (100% Bio) will be reported as D00.

Aviation

Aviation Gas	125
Jet Fuel	130

Other

Ethane	052
Propane	054
Butane	055
Isobutane	058
Pentanes	059
Propylene	075
Xylene	076
Excluded Liquid (Mineral Oil)	077
Additive Miscellaneous	090
Waste Oil	091
Undefined products	092
MTBE	093
TAME	121
Residual Fuel Oil	175
Ethylene	196
Butylene	198
CNG	224
Methanol	243
Benzene	248
ETBE	249
Methane	265
Marine Diesel Oil	279
Soy Oil (unprocessed)	285
Organic Oils (food)	960